Revised Tentative SEBAC Agreement Summary (July 22nd, 2011) - Working Document

Please note the following applies to the content presented in the table that follows:

[1] Pending questions in certain areas remain for which additional information/clarification/data has been requested. Or for which specific actuarial assumptions are unavailable.

[2] Savings for some provisions may be less based on the actual date of ratification.

[3] For provisions where data/information was unavailable, assumptions were made to access the achievability of the savings.

[4] Savings are not necessarily cumulative.

Agreement Provisions & Reported Savings				Discussion & Analysis	
	FY 12	FY 13	20-Year Projection	Notes	Notes Re: Savings Achievability [2]
Pension Changes	(in 000's)				
Provision 1: Cap salary that can be considered as part of an individual's pension benefit as provided under the Internal Revenue Code	$ 2,400	$ 2,500	$ 62,000	Under the Internal Revenue Code, the current federal ceiling on pensionable salary ($245,000 in 2011) applies to the base salaries of pension plan members. Salary earned in excess of this amount may not be used in determining member contributions and benefits.	Achievable. The State currently does not place a ceiling on pensionable salary. Therefore, adopting the federal cap would generate the estimated pension savings in SERS.
Provision 17 Related Savings: Pension savings due to 2 year wage freeze	$ 69,316	$ 71,198	$ 140,000	Savings estimated for biennium only.	Partially Achievable. Current actuarial assumptions provide for 4% annual wage growth. In addition, the state's annual required contribution (ARC) is calculated as a percentage of projected annual payroll. By reducing this base annual payroll by 4% in FY 12 and assuming no increase in FY 13 and applying the ARC percentage, the estimated savings are partially achieved.
Provision 2: Change the minimum COLA for individuals who retire after 10/2/11 from 2.5% to 2.0% with the highest amount going from 6.0% to 7.5%	$ 32,525	$ 34,315	$ 1,342,000	Annual adjustments each July 1st. For employees retiring after 6/30/99, the annual adjustment will be 60% of the increase in CPI up to 6% and 75% of the increase in CPI over 6%. This adjustment will be no less than 2.5% and no greater than 6%. Current SERS actuarial COLA assumptions: Pre July 1, 1980 Retirees = 3.6%; 1980 - 1997 Retirees = 3%; Post July 1, 1997 Retirees = 2.7%. As actuarial assumptions are currently set above this new minimum, it is unclear how savings will be achieved.	Achievable. As of the 2010 SERS valuation, the state paid $1.26 billion in annual retiree benefits. A 0.5% reduction in COLA would equate to $6.3 million in savings annually. Additional savings would accrue as future COLA increases would be based on a lower base pension benefit. In addition, this change in actuarial assumptions would result in a lower annual required contribution (ARC).
Provision 3: Change the Early retirement reduction factor from 3% to 6% for each year before eligible to take Normal Retirement with associated health care savings	$ 35,000	$ 32,400	$ 662,000	Reflects ARC reduction, however 3/4 is attributable to health savings which assumes individuals retiring closer to age 65. Pension savings is $8,917,000 in FY 12 and $8,479,000 in FY 13. Retiree health savings is $26,083,000 in FY 12 and $23,921,000 in FY 13.	Pension Portion- Achievable. Increasing the penalty for early retirement should result in an actuarial gain to the SERS retirement fund and in turn, a reduction in the annual required contribution (ARC). Health Portion- Uncertain. Savings to retiree health are probable assuming more individuals will likely retire closer to age 65 when the cost to the state to provide health care is less as individuals are Medicare eligible. However it is unclear how the full estimated savings are achieved.
Provision 4: Increase the Employee Contribution to 3% for Retiree health care trust fund for all employees (not just new employees) phased in beginning 7/1/13.	$ -	$ -	$ 871,000	Specific assumptions are not currently available to assess the validity behind the 20 year projected savings. The amount of the savings would depend on the number of current employees and new employees anticipated, who are not currently contributing, the duration for which they would be contributing, and their wages. In FY 11, employee contributions for retiree health was approximately $22 million. The agreement does not specify when the state will begin using the funds to pay current retiree health expenses. It is assumed, as those individuals who contributed retire the state will use employee contributions to offset retiree health expenditures for those employees. Although state will make matching annual contributions between 2017-2022, these costs are not reflected.	Achievable. Underlying assumptions for reported savings are unknown, however, by applying reasonable assumptions, savings to retiree health are achievable. The extent of the savings would depend on various factors outlined in the notes and when the state would begin using employee contributions to pay retiree health expenditures. Any savings would be offset by the state's costs to the OPEB fund from 2017 through 2022.

Agreement Provisions & Reported Savings				Discussion & Analysis	
	FY 12	FY 13	20-Year Projection	Notes	Notes Re: Savings Achievability [2]
Provision 5: For current employees who retire after 7/1/2022, Normal Retirement eligibility increase from Age 60 and 25 YOS or Age 62 and 10 YOS to Age 63 and 25 YOS or Age 65 and 10 YOS. By 7/1/13, present employees may elect to pay the actuarial pension costs of maintaining the normal retirement eligibility that exists in the present plan which is scheduled to change effective July 1, 2022.	$ 22,000	$ 22,000	$ 677,000		Achievable. Estimated savings for this provision would primarily result from the change in actuarial assumptions and a lower annual required contribution (ARC), as it would be anticipated more employees would delay retirement (meaning less years of retirement benefits to be paid and additional years of employee contributions helping to offset state costs). Additional savings may be attributed to healthcare?
Provision 6:New Tier III for individuals hired after 7/1/11, Normal Retirement eligibility Age 63 and 25 YOS or Age 65 and 10 YOS and salary based on Final five year average; HD 20 Years of HD service and age 50 or 25 Years of HD Service regardless of age and salary based on final five year average pay; Early Retirement Age 60 and 15 YOS; Ten year cliff vesting.	$ -	$ 9,649	$ 2,982,000	Short-term savings in FY 13 are unclear as differences in state costs between Tier IIA and new Tier III have not been provided. Short-term savings will also depend on the number of new hires during the biennium, which are anticipated to be low due to the hiring freeze as well as leaving 1,000 retirement vacancies unfilled.	Partially Achievable. Short-term savings are unclear as no difference in Tier IIA versus Tier III benefits or employee contribution levels. Savings likely attributable to having same normal cost as Tier IIA, but no payments toward unfunded liability (as there are for Tier IIA). Savings will also depend on the number of new hires in the biennium, which are anticipated to be low due to the hiring freeze as well as plans to leave 1,000 retirement vacancies unfilled.
Provision 7: Increase number of retirees due to absence of ERIP; reduce refills	$ 65,000	$ 65,000	$ 1,300,000	PS savings - based on leaving ~ 1,000 positions unfilled @ $65,000/yr avg salary. Savings will depend on the extent to which these positions remain unfilled and how closely actual average employee salaries at retirement are in comparison to assumed salary levels.	Achievable. Based on personnel savings from keeping 1,000 positions at an average salary of $65,000 unfilled. Savings will depend on the extent to which these positions remain unfilled and how closely actual average employee salaries at retirement are in comparison to assumed salary levels.
Provision 8: Provide the availability of individuals in the Alternate Retirement Plan to switch to a Hybrid-Defined benefit/Defined contribution type plan.	$ 10,750	$ 11,190	$ 235,000		Achievable, however savings in biennium would result from current ARP participants and new potential ARP participants choosing the hybrid plan. To achieve estimated savings, more than 50% of current ARP participants would need to switch to the hybrid.
Pension Total	**$ 236,991**	**$ 248,252**	**$ 8,271,000**		
Health Care Changes					
Provision 9: Plan Changes value and non value based**:** $35 Emergency Room copay; Certain cost savings changes wherein individuals would have to get preauthorization before a second MRI would be paid for, etc.	$ 1,200	$ 3,700	$ 75,000	The plan (health and pharmacy) will no longer be recognized as grandfathered plans under federal health care reform. As such, there are certain services for which the plan would not be allowed to charge a co-pay or have annual maximums. It is unclear if the savings are adjusted for any changes as a result of the plan no longer being recognized as a grandfathered plan. The savings would depend on the number of emergency room visits which would be subject to the copay and the extent to which the prior authorization provisions decreases utilization. The data on total current utilization is unavailable.	Uncertain. Savings are likely assuming a portion of emergency room visits will be subject to the copay and certain services will likely not be authorized. If it is assumed 50% of the savings is attributable to emergency room copays, an estimated 17,143 visits in FY 12 and 52,857 visits in FY 13 would be subject to the copay.
Provision 10: Value based health and dental **-** Provide a Value based health and dental care plan under which individuals and their families could chose to participate and agree to follow all plan and physician recommended physicals, disease management protocols and diagnostic testing. Failure to comply would result in the individual and their families being placed in the Nonvalue added plan with the concomitant cost increase. The cost for this plan would the same as the current plan plus any scheduled experience determined increases. Value Added for Retirees – Voluntary for current Retirees; Mandatory for individuals who retire on and after 10/2/11. If new retirees elect nonvalue added, cost is $100 per month.	$ 102,500	$ 102,500	$ 2,378,000	The savings assumes 50% of those eligible to participate in the value based plan will enroll. The savings may or may not be offset by assumptions about changes in utilization as a result of the value based participation requirements. Additional information was provided which states the savings assumes a 10% reduction in claims costs for health, but no corresponding back up on how that assumption was reached has been provided. Further, there is some suggestion that utilization increase for dental services was assumed, as 2 cleanings are required a year by the value based plan, however specific assumptions about increased utilization are and associated costs are unknown. The increased utilization costs in dental services have not been factored into savings estimates. The savings for the program overall are stated to be net of any increased utilization. It is uncertain what assumptions were made about changes in utilization. A breakout of the components of this figure are not currently available, additional information would be required to assess the validity of the figures.	Uncertain. If it is assumed 50% of employees and their dependents participate in the value based plan or 27,493 active employees and the remaining 50% do not participate and therefore are subject to the increased premium share for an entire plan year, equal to $1,200; approximately $32.9 million in savings will be achieved in FY 12 and FY 13 (32% of the total savings). It is uncertain if any actual savings in health claims costs can be achieved in the first few years of a value based model. Any savings would be offset by increased utilization for those services required by the value based plan and not currently utilized by employees and their dependents.

Agreement Provisions & Reported Savings				Discussion & Analysis	
	FY 12	FY 13	20-Year Projection	Notes	Notes Re: Savings Achievability [2]
Provision 11: Nonvalue based health and dental - If the employee chose not to participate their cost for health care would be the same as calculated in the first year for Value based, plus $100.00 per month additional. Institute a $350 Medical Deductible per year per individual.	$ 18,000	$ 18,000	$ 249,000	Figure reflects the savings associated with the $350 deductible only. The savings appears to assume 50% of those who would be required to enroll in either the standard or the value based plan, end up paying the deductible. The deductible has been valued at $22.89 per member per month, or approximately $275 per year. It is unclear if the $350 deductible provision would be able to be implemented at the start of the fiscal year by the carriers. The savings would depend on the extent to which employees choose to participate in the value based plan, when the $350 deductible and increased premium provisions are implemented, and which services are subject to the $350 deductible.	Uncertain- Savings are likely as services not currently covered by a co-pay would be subject to the deductible. Services eligible for co pays and cost sharing are limited by federal health care reform. If it is assumed 50% of eligible employees participate in the value based plan, and the deductible is assumed to have a per member per month value of $22.89, the state would save approximately $18.2 million a year. However this assumes those individuals whose services are subject to the deductible utilize services up to the deductible maximum.
Provision 12: Reduce Costs with Generics - drugs coming off patent	$ 1,500	$ 12,000	$ 380,000	Savings would be achieved regardless of the agreement.	It is unclear what drugs were assumed in the savings estimate (and not already account for in the budget) and the degree of utilization and cost of those drugs to the employee health plan. Savings are achievable regardless of the SEBAC agreement. The SEBAC 2009 agreement requires mandatory generic substitution.
Provision 13: Tobacco and Obesity - reduce costs through voluntary referral Program	$ 1,000	$ 2,000	$ 85,000	These programs already exist, for which information is currently unavailable. The savings could be achieved without the agreement. The savings could be achieved to the extent participation in the programs result in decreased health care costs, which are more probable over the longer term. It is unclear if the savings have been offset by any assumptions about how many individuals would be eligible for the $100 incentive payment in the out years.	Unachievable. Programs are currently offered without an incentive payment; participation rate is currently unavailable. It is unlikely the incentive payment, offered to an individual only after three years of weight management of smoking abstinence will be sufficient to encourage additional participation. Savings from decreased health care costs may present in the long term to the extent that a significant percentage of the population participate and have improved health.
Provision 14: Other Health Cost Containment Initiatives - the Healthcare Cost Containment Committee will identify additional cost savings through renegotiation of contracts and improved service delivery	$ 40,000	$ 35,000	$ 420,000	The HCCC does discuss/implement provisions to reduce health care costs. (e.g. Patient Centered Medical Homes, High-Flier ER users, etc)	Achievable. Projected savings from updated contract terms for FY 12 and FY 13, for both medical and dental are $38.9 million in FY 12 and $38.6 million in FY 13. Actual savings may be less depending on ratification.
Provision 15: Pharmacy Copays and Mandatory Mail Order for Active Employees and New Retirees: Increase to $5, $20 and $35 for non maintenance drugs. Additional drugs coming off patent which will now be available as generics. Mandatory Mail Order - maintenance drugs for active employees, future retirees and current retirees under 65 must be ordered through the mail. Voluntary for current retirees over 65 (mandatory once enrolled).	$ 19,876	$ 20,500	$ 698,000	Mail order and retail pharmacy drugs have two separate price points. In general, mail order drugs are cheaper because of sheer volume. Additional prescription plan specific information would be needed in order to access the figures and provide analysis. In addition it is unclear if there is any assumption as to changes in utilization as a result of the changes. For example, it is unclear an increase in utilization was assumed for maintenance drugs for individuals with chronic conditions as a result of decreased or waived copays.	Uncertain. It is unclear to what extent the increased copays for non-maintenance drugs, for which current utilization is currently unavailable, will offset the decreased copays for maintenance drugs, for which current utilization is also unavailable. It is unclear if the savings assumes an increase in utilization and compliance with prescription drug regimens for individuals with chronic conditions, such as diabetes, for which copays are waived.
Provision 16: Minimum Service for Retiree Medical – Increase to 15 years of actual state service for Normal, early retirement and HD retirement with continuation of Rule of 75 for Deferred Vested.	$ 3,822	$ 9,705	$ 987,000	This provision should result in a savings as it requires individuals to have 15 years of actual state service in order to be eligible for retiree health. Currently, individuals with 10 years of state service are eligible for retiree health. In addition, the Rule of 75 would still apply, wherein the individual's age plus years of service must be equal to at least 75. However, state service must be equal to at least 15 years in order to be eligible for retiree health. The savings estimates assumes on average 15 employees per month retiree with less than 15 years of state service and retiree health savings increases by 10% per year. In addition, the savings appears to be associated with individuals who retiree closer to age 65 when they are Medicare eligible and the cost to the state to provide health care is less.	Uncertain. Savings are likely as the earliest an individual would be able to retire and be eligible for retiree health benefits is 60, as opposed to 55; which is 5 years closer to Medicare eligibility than the current plan allows for. The state saves approximately $11,650 a year, per retiree if they retire and are Medicare eligible.
Health Care Total	**$ 187,898**	**$ 203,405**	**$ 5,272,000**		

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Other Changes and Cost Savings					
Provision 17: Hard Wage Freeze – FY 2012 and FY 2013 No state employee would receive any increase in salary for either of the next two fiscal years, including no payment for individuals who were at their top step as a bonus.	$ 138,852	$ 309,550	$ 6,330,000		Achievable, however due to the anticipated two month delay in implementation, general wage increases, annual increments and lump sum payments for bargaining units with existing settled contracts were provided as of July 1st. This will reduce FY 12 estimated savings by $3.8 million each pay period until the agreement is ratified. Assuming 4 pay periods, savings would be reduced by $15 million (GF & TF). It is anticipated that this would be recovered at the start of FY 14. It is anticipated, however, that lump sum payments would be recouped in the biennium, thus this would reduce FY 14 recoveries needed.
Provision 18: Adjust break point in 2, Tier 2A and Tier 3	$ -	$ -	$ (458,000)		Uncertain. The fiscal impact of an adjustment to the breakpoint cannot be determined as details have yet to be established.
Provision 19: Salary Increases - FY2013-14, FY 2014-15 and FY2015-16 - provide Three Percent plus step increases or their equivalent in those units with them			$ (600,000)		No savings indicated. Cost in out-years.
Provision 20: Technology Initiatives - utilize new te	$ 40,000	$ 50,000	$ 1,000,000		Uncertain. The fiscal impact cannot be determined as information as to the focus of or methods use have not be established.
Provision 21: SEBAC Budget Savings Initiative - implement savings ideas proposed by employees to reduce costs in agencies through reduced procurement costs, more efficient agency operations and other initiatives.	$ 90,000	$ 90,000	$ 1,800,000		Uncertain. The fiscal impact cannot be determined as information as to the focus of or methods use have not be established.
Provision 22: Longevity – No longevity payment would be made in October, 2011 to those units with capped longevity and an equivalent savings amount would be negotiated from those with uncapped longevity. No one during the biennium will have those years count for that period. Individuals first hired on or after 7/1/11 (military service counts) would never receive a longevity payment.	$ 7,000	$ -	$ 53,000		Achievable. The April 2011 longevity payment for capped units was approximately $6.3 million for all appropriated funds. The April 2011 longevity payment for uncapped units (including non-union employees) was approximately $11.5 million all appropriated funds. Therefore, estimated savings are more than achievable in FY 12.
Other Changes and Cost Savings Total	**$ 275,852**	**$ 449,550**	**$ 8,125,000**		
Grand Total	**$ 700,741**	**$ 901,207**	**$ 21,668,000**		

Agreement also includes the following:

Extension of SEBAC through 2022

Extension of Job Security through FY 2015, with increased flexibility on geographic limits for reassignment

New Retirement rules effective 10/2/2011

Comparable provisions for managers

Beginning July 1, 2017, the state will match employee contributions to the Retiree Health Care Trust Fund